

2010 HEALTH CARE SPENDING ACCOUNT



Effective January 1, 2010 Contra Costa County Health Care Spending Account

To help employees meet their health care needs in a cost-effective manner, Contra Costa County provides a special program which allows you to set aside up to \$5,000 of your annual salary – before taxes – to pay for eligible medical, dental or vision expenses.

When you use the Contra Costa County Health Care Spending Account (HCSA) you take advantage of special tax savings available through Section 125 of the Internal Revenue Code. The money you put aside is not subject to federal, state or Social Security and Medicare (FICA) taxes.



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An Overview: How Does HCSA Work?

The Health Care Spending Account allows you to reimburse yourself for eligible medical and related expenses with before-tax dollars as follows:

- ❧ When you enroll in this program you decide how much of your pay will go to your Health Care Spending Account for the plan year. The County deposits that money in your HCSA account instead of paying it to you in taxable cash. Your contribution shows as a before-tax deduction on your paycheck. The County takes deductions in equal installments on the 10th of each month.
- ❧ You can use your account balance to reimburse yourself for eligible expenses during the plan year. Eligible expenses include, but are not limited to plan deductibles, office visit co-payments and prescription eyeglasses. You pay the provider directly for these services then submit a Reimbursement Form to the Employee Benefits Service Unit with the required information.
- ❧ The County will issue a reimbursement check, provided the request has been properly submitted and the expenses claimed do not exceed the amount you have elected for the year.
- ❧ Services must be received between January 1st and December 31st of the enrolled plan year or whichever portion of the plan year you are eligible for. However, you have until March 31st of the following year to submit your claims. **According to IRS regulations, if you do not submit eligible expenses by this deadline, you forfeit any monies remaining in your account for that plan year.**

The Health Care Spending Account

Because the HCSA is a special plan subject to IRS rules, it is important that you understand how it works and decide whether you can benefit from the advantages it offers. This booklet will help you to understand the plan and give you information about how to enroll.

The medical and dental insurance plans offered by the County to its employees are designed to protect you and your family, and provide you with access to needed care. While the plans cover most services, you may find yourself with necessary, predictable expenses that are not covered by the insurance plans. The Health Care Spending Account allows you to budget and pay for such expenses, and save taxes at the same time. Participation is optional – you decide whether or not to contribute. You also decide how much to set aside.

HCSA rules are determined by the Internal Revenue Service (IRS). Careful planning is essential as IRS regulations require that the money in your HCSA be used only for eligible expenses and any amount not eligible to be claimed will be forfeited. You will find more information about what are eligible and ineligible expenses later in this booklet.

Please note that medical expenses for Domestic Partners and the dependents of Domestic Partners cannot be reimbursed under HCSA.

“The IRS has ruled that you have until December 31, 2010 to incur eligible services and until March 31, 2011 to submit for reimbursement. Any amount of money not claimed by March 31, 2011 must be FORFEITED.”

Who Is Eligible?

The HCSA benefit is available to all regular full-time County employees, as well as those regular part-time employees who are regularly scheduled to work 20 or more hours per week. Employees **must complete 6 months of continuous permanent employment with the County to be eligible for this program.**

Once eligible, you may enroll:

- ☒ Within 60 days of meeting the 6 month eligibility criteria; **OR,**
- ☒ Within 60 days of a qualifying "Change in Family Status" **OR,**
- ☒ During the annual open enrollment held each fall for the following calendar year.

If you enroll during the annual open enrollment period, payroll deductions begin with your January 10th paycheck. You can use your account to reimburse yourself for eligible expenses incurred between January 1st and December 31st of the enrolled calendar year (or, if shorter, the period that the participant was covered under the plan).

If you become eligible at any other time (i.e., you have a child), you have 60 days from the event date to complete and send in an enrollment form. HCSA participation will begin the first of the month after the Employee Benefits Service Unit receives the completed form and payroll deductions will begin on the 10th of the enrollment month.

You may not use money in your account for expenses incurred before you become a plan participant. If you stop participation before the plan year is over, you may not use the money in your account for expenses incurred after the month in which your contributions stop.

How Do I Use the HCSA?

When you enroll, you designate how much money you would like to set aside on a pre-tax basis to pay for health care related expenses. Your annual election will be taken out of your paychecks in equal amounts for the entire plan year. The maximum amount you can set aside for 2010 is \$5,000.00. This amount is pro-rated if you come into the plan after January 1st. Monthly deductions cannot be more than \$416.66.

For example, if you first become eligible to participate on July 1, the maximum you can elect for the plan

year is \$2,500.00, which will come out of your paycheck in equal installments of \$416.66 for the remainder of the plan year.

The amount you set aside in your HCSA can be reimbursed once you've incurred eligible services during the plan year for yourself and eligible dependents.

Once you have received the eligible service you may submit a reimbursement form with the needed back up documentation. A check will then be mailed to your home.

Can I Change My Contributions During the Year?

IRS rules governing reimbursement accounts strictly limit your ability to change your contribution amount outside of open enrollment. Once you have enrolled you can only make changes:

- ✎ If you have a "Change in Family Status" event such as:
 - ✓ Birth, adoption, or placement of a child;
 - ✓ Marriage, divorce, legal separation, or annulment;
 - ✓ Death of your spouse or child;
 - ✓ Your spouse's or dependent's employment status changes (i.e. your spouse starts or stops a job or takes a leave of absence.);
 - ✓ You take an unpaid leave of absence; or,
 - ✓ Change in employment status that causes you to gain or lose eligibility to participate in the HCSA.
- ✎ The change must be consistent with the family status change, for example, if you get married you can only increase your amount if not already at maximum. If you get divorced, you can only decrease your amount.

Payment Process

Payments will be processed as soon as administratively feasible. Generally, reimbursement will be made as follows:

- ☐ Eligible claims received between the 1st and the 15th of the month will be processed by the 10th working day following the 15th.
- ☐ Eligible claims received between the 16th and the end of the month will be processed by the 10th working day following the end of the month.

Submitting Reimbursement Forms

Forms can be obtained by visiting WWW.CCCOUNTY.US under Departments select Human Resources, Employee Benefits then Health Care Spending Account.



- ◆ All reimbursement forms must be accompanied by the necessary back up documentation.
- ◆ All claims must have an Explanation of Benefits from the insurance or an invoice that states the name of the patient, the date of service, the type of service and the amount charged.

- * All claim forms must have all sections of the claim form completed.
- * Please use one line on the claim form per service received
- * Over the counter items must have a note stating the intended use
- * Forms can be Mailed, Faxed or Emailed
- * If claim forms are not legible or have missing information, they will not be processed and will be returned to you

What if I take a Leave of Absence or Separate/Retire from the County

While on a Leave of Absence you have the choice of electing to stop your participation or allowing it to continue. We will assume you want to continue with the election on file, unless you inform us otherwise.

Contributions — While on a leave with pay, deductions will continue as if you were at work. When you go on a leave without pay, your contributions automatically stop then automatically resume when you return to work. The monthly deduction is recalculated to account for the missed deduction unless you ask that your participation stop while on leave.

Claiming Expenses — If you continue your participation you will be able to submit claims for eligible expenses as outlined on page 3 & 4 of this booklet. If you stop your participation you will NOT be able to submit claims for services rendered during your leave.

Employees who Separate/Retire from the County will be offered COBRA

COBRA allows participants who are no longer eligible to participate in the plan to continue participation through post-tax contributions.

If you Separate/Retire from the County during the plan year and have not received enough services to claim the balance in your account, you will NOT be able to claim services received after your separation date unless COBRA is elected.

Which Expenses are Eligible for Reimbursement through the HCSA?

Qualifying expenses include, but are not limited to:

- ✎ Acupuncture
- ✎ Alcoholism/Substance abuse Treatment
- ✎ Ambulances
- ✎ Artificial limbs
- ✎ Birth control pills and devices (through a doctor's prescription only)
- ✎ Braces- Special rules apply, please see page 20
- ✎ Chiropractor fees
- ✎ Christian Science practitioner fees
- ✎ Coinsurance and co-payments
- ✎ Contact lenses and eyeglasses, including exam fee
- ✎ Crutches
- ✎ Deductibles
- ✎ Dental & Orthodontic treatment (special rules apply for Ortho, see pg 20)
- ✎ Diagnostic testing fees
- ✎ Fees of licensed osteopaths
- ✎ Guide dogs
- ✎ Hearing care and aids
- ✎ Hospital bills
- ✎ Immunizations
- ✎ Insulin
- ✎ Laboratory fees
- ✎ Laetrile
- ✎ Lamaze classes
- ✎ Lead base paint removal for children with lead poisoning
- ✎ Nurses' fees (including nurses' board and Social Security taxes you pay on behalf of that nurse)
- ✎ Prescription drugs
- ✎ Prosthesis
- ✎ Psychiatric care

Which Expenses are Eligible for Reimbursement through the HCSA?

Qualifying expense include, but are not limited to:

- ✗ Psychologist fees
- ✗ Routine physician exams
- ✗ Smoking Cessation Programs/RX drugs for Smoking Cessation Programs
- ✗ Special equipment (such as car hand controls for the disabled)
- ✗ Sterilization
- ✗ Therapy treatments (such as physical or speech therapy following an accident or stroke)
- ✗ Transportation and lodging expenses primarily for rendition of medical services
- ✗ Weight loss programs (See details below)
- ✗ Wheelchairs
- ✗ X-rays

Special Rules for Weight Loss Programs

Under IRS rules, only certain expenses can be reimbursed. These include:

- ◆ If the individual has a diagnosis from a physician that he or she is obese, or
- ◆ If the individual is not obese, but has a diagnosis from a physician that he or she has a condition (such as hypertension) which would use the participation in a weight loss program as part of the treatment.

The deductible expenses are limited to counseling sessions, group meetings and the like.

Please note: Only those items mentioned above can be reimbursed through the HCSA at this time, other weight loss program expenses cannot. Ineligible expenses would include:

- ◆ Special reduced calorie foods (even if taken in conjunction with an allowable weight loss program)
- ◆ Weight loss program costs for those who participate merely to improve general health or appearance
- ◆ Exercise equipment
- ◆ Nutritional supplements
- ◆ Sports clothing or shoes

Special Rules for Over-the-Counter Medications/Supplies

Generally, over-the-counter medications used to treat a medical condition, such as hay fever, headaches, and flu, are eligible expenses. Over-the-counter items intended for general health and well-being – such as one a day vitamins, toothpaste, cosmetics and medicated shampoo – are not eligible for reimbursement.

PLEASE NOTE: Over-the-counter drug purchases must be limited to a reasonable supply. When submitting claims for over-the-counter items, you will need to supply a cash register receipt that clearly describes the item(s) purchased along with a written note that states the name of the item and it's intended use. A receipt that lists only a price is not sufficient.

Examples of over-the-counter medications that will generally be considered eligible expenses:

- ◆ Allergy medicine
- ◆ Antacid
- ◆ Anti-diarrhea medicine & laxatives
- ◆ Band-Aids, bandages & gauze pads
 - ◆ Calamine lotion
 - ◆ Carpal tunnel wrist support
 - ◆ Cold & flu medicine
 - ◆ Cold/hot packs for injuries
 - ◆ Contact lens cleaning and wetting solution
 - ◆ Cough drops & throat lozenges
- ◆ First aid cream & antibacterial ointment
- ◆ Liquid adhesive for cuts
- ◆ Menstrual cycle products for pain & cramp relief
- ◆ Motion sickness pills
- ◆ Muscle or joint pain reliever
- ◆ Nicotine gum or patches for smoking cessation
- ◆ Ointment or cream for sunburn
- ◆ Pain reliever
- ◆ Reading glasses
- ◆ Sinus medication & nasal sinus sprays
- ◆ Suppositories and creams for hemorrhoids
- ◆ Wart removal treatment



Special Rules for Over-the-Counter Medications/Supplies Continued

Example of over-the-counter medications that require a doctor's note which must include diagnosis of the specific medical condition to be treated and length of treatment:



- ◆ Acne treatment
- ◆ Arthritis treatments such as Glucosamine/Chondroitin
- ◆ Chinese herbs, naturopathic, & dietary supplements
- ◆ Depression medication
- ◆ Hormone therapy
- ◆ Lactose intolerance pills
- ◆ Nasal spray for snoring
- ◆ Orthopedic shoes and inserts (price difference only)
- ◆ Prenatal vitamins
- ◆ Retin A for non-cosmetic purpose
- ◆ Rogaine for non-cosmetic purpose
- ◆ Sleeping aids
- ◆ Sunscreen
- ◆ Topical creams
- ◆ Vitamins (to treat a medical condition)
- ◆ Weight loss drugs

Special Rules for Over-the-Counter Medications/Supplies Continued

Examples of ineligible expenses:



- ◆ Chapstick
- ◆ Cosmetics
- ◆ Deodorant
- ◆ Face cream, suntan lotion, & moisturizers
- ◆ Illegal treatments
- ◆ Medicated shampoo & soap
- ◆ Mouthwash
- ◆ NoDoz
- ◆ One-a-day vitamins
- ◆ Sleeping pills
- ◆ Tissues
- ◆ Toiletries
- ◆ Toothbrush and toothpaste
- ◆ Vacuum cleaners
- ◆ Vaseline

What Expenses Are Not Eligible For Reimbursement?

The following are some of the expenses not eligible for reimbursement :

- ✎ Not medically necessary cosmetic surgery or procedures
- ✎ Health club memberships
- ✎ Medical, dental or other insurance premiums for yourself, your spouse or dependents
- ✎ Nonprescription items not specifically allowed by IRS regulation and the rules of this plan
- ✎ Special diet foods or other weight loss aides not specifically allowed by the IRS
- ✎ Expenses reimbursed by any other policy or plan
- ✎ Expenses not otherwise considered deductible for income tax purposes
- ✎ Expenses claimed as a deduction or credit on your federal income tax return
- ✎ Expenses incurred before you were a participant in the HCSA
- ✎ Expenses for your Domestic Partner or dependents of your Domestic Partner

How Do I Receive Benefits?

In order to be reimbursed through the HCSA program, you must submit proof that an eligible expense was incurred by you (or your dependent). In many cases, a portion of your expenses will be covered by the County's medical or dental plans (or similar plans, such as those sponsored by your spouse's employer.) You should always submit these claims to the insurance plan first. Once you receive an Explanation of Benefits (EOB) showing the portion of the claim that is your responsibility, you can submit that EOB for reimbursement with your HCSA Reimbursement Form.

In other cases, the expense may not be covered by an insurance plan (for example, vision care expenses). In those situations, you must submit a cash receipt or invoice from your provider which clearly indicates the name of the individual for whom services were rendered, the type of service provided, the actual date(s) of treatment and the amount charged. Without proof that the services are in a category that is eligible for reimbursement and proof that they were provided during the plan year, you will not be allowed to claim them under HCSA. For prescription drugs, the receipt must clearly show the name of the patient and provider, the date dispensed and the amount of the prescription.

How Does HCSA Affect My Taxes?

You do not pay federal or state income taxes, or Social Security and Medicare (FICA) taxes on money set aside in your Health Care Spending Account. You only pay taxes on your salary after the County deducts HCSA contributions.

For example, if you normally earn \$2,500.00 per month and decide to direct \$100.00 per month to your HCSA account, you only pay taxes on the remaining \$2,400.00.

How Does Participating in HCSA Affect My Retirement, Social Security, and Other Benefits?

Participation in HCSA does not affect your retirement plan contributions or any pay-related benefit such as supplemental life insurance. It may, however, affect any Social Security and unemployment insurance benefits you receive.

If your annual salary after HCSA contributions is at or above the annual Social Security wage base, your FICA taxes for Social Security remain the same. However, you will see a reduction in the Medicare portion of the FICA taxes you owe for amounts earned above the Social Security wage base.

If your salary after HCSA contributions is below the wage base, you'll pay less FICA taxes for both Social Security and Medicare. Your future Social Security benefits may be slightly reduced if your salaries from the years you participate in HCSA are used to calculate your average earnings for Social Security benefits.

How to Calculate Expenses for 2010

Please use the worksheet on the next page to estimate expenses incurred during the plan year. Please remember that the plan year runs from January 1st through December 31st.

If you start your participation in the plan after January 1st or end your participation before December 31st the period to receive services will be shorter. For example, you enter into the plan as of March 1st but retire or terminate your employment with the County as of September 20th. The period in which you are eligible to incur services will be from March 1st through September 30th.

Please plan carefully. IRS regulations require that any unused funds remaining in your account after the plan year ends will be forfeited. **In other words, "use it or lose it."**

You will be allowed to submit claims for services incurred during the plan year up through March 31, 2011. No additional claims can be incurred after December 31, 2010.

- ♦ **Please realize that you are only able to claim expenses for eligible IRS dependents.**

Please remember that your claims should be for services received during your participation in the plan year not when you were billed or paid for the services.

Health Care Spending Account (HCSA) Worksheet

For the Health Care Spending Account, do not include amounts paid by your insurance or amounts you intend to claim as itemized medical deductions on your annual income tax return.

Everyday Medical Expenses Not Covered by Insurance

(Total estimated expenses for you, your spouse and/or eligible IRS dependents)

DENTAL (other than cosmetic) \$ _____

VISION (glasses, contact lenses, exams, supplies) \$ _____

OVER-THE-COUNTER MEDICATIONS
(examples: antacids, pain relievers, cold medicines, allergy medicines) \$ _____

OTHER \$ _____

Expenses Within Your Medical Coverage

CO-PAYS \$ _____

OTHER \$ _____

Special Expenses

ORTHODONTIA \$ _____

MEDICALLY NECESSARY HOME HEALTH SERVICES \$ _____

PSYCHOTHERAPY TREATMENTS \$ _____

OTHER \$ _____

TOTAL ESTIMATED ANNUAL OUT OF POCKET EXPENSES \$ _____

Commonly Asked Questions About the HCSA

Q. Can I participate in the HCSA and not in the Dependent Care Assistance Plan (DCAP), or vice versa?

A. Yes.

Q. Is there a limit to the amount I can put in the HCSA?

A. Yes. You may not contribute more than \$416.66/ month for the plan year. This means that if you do not participate for the full plan year, you will not be able to take advantage of the full \$5,000 annual allowance.

Q. May I change the amount I elect to defer at any time during the year?

A. The IRS requires that the amount you elect must continue through the rest of the year, unless you experience a change in family status. You can elect a different amount (or to stop participating) during open enrollment for the next plan year.

Q. If I leave or retire from the County before the end of the year, and there is a balance in my account, what happens to it?

A. If you leave employment during the year, you can submit a request for reimbursement for medical services received on or before your date of separation from service. You will have until March 31st following the end of the plan year to submit these expenses.

If you wish to receive reimbursements for expenses incurred after you have terminated service, you **must** continue participating in the HCSA on an after-tax basis through **COBRA**. For example, suppose you elected to contribute \$600 for the plan year (\$50 per month) to the HCSA. On June 30, you terminate employment with the County. If you wish to submit medical expenses incurred on or after July 1, you must elect **COBRA** and make a post-tax contribution each month to maintain your participation in the plan. More information can be obtained from the Employee Benefits Services Unit.

Q. Will the moneys in the HCSA earn interest?

A. Under current tax law, HCSA programs are not intended to act as a savings vehicle; therefore, no interest is credited.

Commonly Asked Questions About the HCSA

Q. Will health care reimbursements be made to me or my providers?

A. They will be payable to you.

Q. What if I die?

A. If you die while you are participating in the HCSA, your participation ends on the date of your death. Your estate or representative can submit reimbursement forms for expenses incurred by you (or other eligible family members) through your date of death. These reimbursements must be requested by March 31st following the end of the plan year.

Q. If I submit expenses through the HCSA, will I be able to claim those same expenses under the "medical expense" deduction on my form 1040, Schedule A?

A. No. You can either submit the expenses to the HCSA or claim your expenses as a tax deduction on your income tax form. **You cannot do both.**

Q. What will happen to the balance remaining in HCSA accounts after the end of the plan year?

A. Under current tax law, unused amounts cannot be returned to you. Thus, if you do not claim eligible expenses by the March 31, 2011 deadline, any remaining balance is forfeited.

Q. Is the HCSA a "medical IRA" or "Medical Savings Account"?

A. No. Contra Costa County does not offer such plans to its employees.

Q. How will I know what my balance is in my HCSA?

A. Your paycheck will show current and year-to-date deductions for the HCSA. Each time you submit a request for reimbursement you will receive an explanation of benefits that will reflect your reimbursement amount and the current balance in your account.

Commonly Asked Questions Continued

- Q. How often may I submit requests for reimbursements?**
- A.** You may submit requests for reimbursement at any time your accumulated expenses are at least \$20.00. Requests for smaller amounts will not be processed until the end of each calendar year.
- Q. How are orthodontia expenses reimbursed?**
- A.** Expenses are reimbursed for services incurred during the plan year. In order for our office to determine the eligible portion of the treatment a treatment plan or statement from the orthodontist outlining the services provided for the current plan year will need to be submitted. The treatment plan or statement must contain the following:
- Name of the Patient
 - Date Treatment Commenced
 - Length of Active Treatment
 - Total Cost of Treatment
- If you pre-pay for services, reimbursement will only be for the portion that is related to services received during the 2010 plan year.

*** IMPORTANT REMINDERS ***



READ!

- ✓ To enroll in the HCSA, complete a HCSA Enrollment Form and return to the Employee Benefits Service Unit **before the required deadline.**
- ✓ You must **re-enroll** in the HCSA for each calendar year.
- ✓ **It is extremely important to accurately estimate eligible health care expenses** since IRS rules limit changes during the plan year and require that you forfeit money at calendar year end if you don't submit health care expenses that qualify for reimbursement. It might be helpful to go over your expenses for the last few years as well as consulting with a tax advisor to investigate various alternatives and determine which of your expenses qualify.